

ESTATE PLANNING STRATEGIES

Using Estate Planning Concepts & Tools

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WHY DOES ESTATE PLANNING MATTER?



Since tax laws have undergone repeated changes it's tempting to think estate planning just doesn't matter anymore. We've experienced income-tax and capital gain-tax cuts first hand. We can sock more away in our retirement plans, and the estate tax rate is now at 40% with a large Unified Estate and gift tax exemption continuing until after 2025 when it goes back to \$5,000,000 indexed for inflation from 2011. Yet, there are many misconceptions about taxation, estate taxation, and the need for estate planning.

Contrary to popular perception, the need for estate planning has neither been eliminated nor reduced. In fact, because change has been a constant, preparing an estate may require more vigilance than ever before.

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Transfer of Assets to Chosen Beneficiaries: Planning Your Will

A will is one of the most important documents you will execute in your lifetime. It can reflect your life values and your love and concern for your beneficiaries while serving as a legal document that will lead to an efficient disposition of your assets. If you do not have a will, state law determines who gets what and it may not be in keeping with your wishes.

Whether your will is simple or complex, you can make it effective by following this five-step approach

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| 1 | Act Now | Procrastination is probably the biggest reason why many Americans die without leaving a valid will. The results, however, can be a tragic loss of control over how your assets are distributed. If you don't have a will, or if your existing will hasn't been reviewed in the past few years, you may want to visit your attorney. |
| 2 | Identify Your Real Objectives | Deciding how to dispose of an estate is not a simple matter. Think in terms of real objectives and write down everything you would like to accomplish with your will. Objectives could include: <ul style="list-style-type: none">• complete financial security for a spouse or an elder dependent• financial assistance to children• educational fund for grandchildren• a token bequest to a best friend• a bequest of a piece of jewelry to a daughter• a coin collection to a son• a charitable bequest to fund an important program to help shape the future. |
| 3 | Make an Inventory of Your Assets | A detailed inventory of all your assets is an essential step in planning an effective will. Be sure to include your life insurance, retirement benefits, and jointly owned property, even though the property will not pass under your will. |
| 4 | Consult with Your Attorney | Talk with your attorney and get his or her advice about how to best accomplish your objectives. Find out if the attorney has tax expertise. Some attorneys specialize in estate planning. Your attorney can draft a will, power of attorney and directive to physician that will carry out your wishes effectively and economically. Your attorney will also ensure that your will complies with state law and that all your directives are clearly expressed and legally enforceable. |
| 5 | Complete Periodic Reviews | Your will is like a photograph. It reflects your objectives at the time it was signed. But a won't automatically adjust to reflect changes in the size or the nature of your estate, changes in the needs of your beneficiaries, or changes in the tax laws. So, it's important to keep your will current. |

Will Your Estate Be Subject to the Federal Estate Tax?

The federal estate tax is levied on the total value of all assets in an estate. The estate tax is far-reaching and includes every property interest an individual owned and even assets that were given away during life.

The starting point in estate tax assessment is to estimate the value of your “gross estate.” Every asset you own is included in your gross estate including:

- bank accounts
- securities
- real estate holdings (including your personal residence)
- business interests
- personal property (cars, artwork, jewelry, furniture, etc.)
- death benefits of all life insurance policies
- retirement plan accounts and death benefits
- value of jointly owned property

It might be helpful to list all the assets you own, along with all the assets you control, with the approximate fair market value of each. Then try to estimate the total value of your gross estate in ten years (assuming an average annual inflation rate of 3%).



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400%

2022 FEDERAL ESTATE TAX RATE: UP TO 40%

The Estate Tax Coordinates With the Federal Gift Tax

Because the Estate Tax exclusion limit is shared with the Lifetime Gift Tax exclusion limit, taxable gifts you make during life – in excess of the gift tax annual exclusion – will be added to the value of your taxable estate for purposes of determining the estate tax liability.

You can transfer property during your lifetime but the value of any transfers in excess of the annual exclusion and lifetime exemption may be subject to the federal gift tax – unless the gift is made to a spouse or charity. In addition to the gift tax exemption, you can give any amount of property to a spouse or to charity completely free of gift or estate taxes.

When a person dies, certain expenses must be paid in cash within a short period of time. An estate that is long on assets and short on cash may be forced to sell estate assets, often sacrificing prices resulting in a dramatic reduction of the wealth for the heirs. Final expenses can add up to a disturbingly long list including:

- federal and state death taxes
- funeral and monument expenses
- unpaid medical expenses
- unpaid debts
- executor's fees
- attorney's fees
- court costs
- appraiser's fees
- costs of insuring and otherwise protecting estate property

A-B Trusts

Using an A-B trust structure can offer benefits under some scenarios, as in the case illustrated below

Married Couple Revocable Living Trust \$10,000,000

Event: Death of first spouse in 2026.
No probate or estate taxes.

A Trust

The maximum amount that can be deducted under the estate tax exemption is left to this trust.

\$5,000,000

B Trust

The remaining estate is left to the surviving spouse's trust. The unlimited marital deduction results in no estate tax due.

\$5,430,000

Event: Death of second spouse.

Beneficiaries

- Balance from the A Trust: Passes to the beneficiaries estate tax-free.
- Balance from the B Trust: Any balance above the second spouse's exception amount is subject to estate tax. The remainder of the balance passes to the beneficiaries estate tax-free.



The Role of Life Insurance in Helping Solve Liquidity Problems

A comprehensive estate strategy prepared in advance not only provides for the disposition of assets, it also makes certain the executor will have the cash on hand to pay estate obligations when they become due. There are only three ways to pay estate settlement costs:

The starting point in estate tax assessment is to estimate the value of your “gross estate.” Every asset you own is included in your gross estate including:

- From the Estate Corpus – But the estate may not have sufficient liquidity without selling assets.
- Borrow Money – But this increases estate expenses by adding additional interest charges.
- Life Insurance

Life insurance creates estate liquidity precisely at the moment it’s needed. Furthermore, life insurance death benefits are often characterized as “discounted” dollars since payment of a relatively modest, yearly premium guarantees that the full-face amount of the policy is available when needed. With individuals becoming uninsurable each and every day, why take a chance that you will have a taxable estate in the future and be left unprotected without life insurance coverage?

| Estate Depletion: A Need for Cash | |
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| A typical estate of substance faces four major sources of depletion: | |
| 1. Probate Costs | Court costs, attorneys’ fees and executors’ commissions may average 3 or 6 percent of a \$1,000,000 estate. If the estate is complex or ambiguous, costs can be substantially higher. |
| 2. Federal Estate Tax | For highly valued estates, the federal estate tax can be a major source of depletion. |
| 3. State Death Taxes | Many states levy a death tax on property passing from a decedent. The severity and nature of state death taxes vary from state to state. |
| 4. Sacrifice Sales | Taxes and probate costs must be paid soon after death and they must be paid in cash. If an estate lacks the liquidity to pay these costs (and to provide for the support of the decedent’s family), it may be necessary to sell assets at a sacrifice price. |

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A Trust in Your Will

In many cases, a trust can add significantly to the financial security you want to provide for your family and loved ones. You can direct in your will that all or part of your estate be held in trust for specified family members or other beneficiaries. Whatever provisions you make in your will, the trustee will receive the property at your death. The trustee will technically own the property, with income and principal to be used for your beneficiaries in exact accordance with the directions set forth in the trust document.

What can a testamentary trust accomplish for your beneficiaries?

1. Free your spouse or other beneficiaries from investment and management responsibilities

2. A trust created by your will permits you to determine the ultimate beneficiaries of your estate.

3. A trust permits you to control how your beneficiaries will use and enjoy your property. In your trust agreement (activated through your will), you can provide that your immediate beneficiaries are to receive a specified amount, or the income produced by the trust, or income and whatever amounts of principal are requested or needed by the beneficiaries.



The Irrevocable Life Insurance Trust

The irrevocable life insurance trust (ILIT) can be an ideal tool to use in estate planning because it is specially designed to own life insurance. This strategy assures that life insurance proceeds do not become a part of the insured's estate for estate tax purposes. An irrevocable life insurance trust is a versatile planning tool that can create funds that meet beneficiary needs and provide estate liquidity, with the added advantage of keeping life insurance proceeds out of an owner's estate.

Annuity Wealth Transfer

Wealthy individuals or couples subject to the estate tax, who own a deferred annuity, intended as a gift for their children, may be dismayed when they find out how substantial the tax burden is when an estate is large enough to be subject to the federal estate tax. Using the Annuity Wealth Transfer concept, estate owners can avoid substantial taxes by converting a deferred annuity to a single premium immediate annuity (SPIA).¹ Here's how this concept works:

Credit Shelter Trust: A Powerful Wealth Transfer Tool

Most wealthy individuals use the credit shelter trust and marital trusts in their estate plans. The maximum amount of property that can pass free of estate taxes is placed in the credit shelter trust with the remainder passing to a marital trust. The maximum estate tax free amount is \$12,060,000 in 2022.

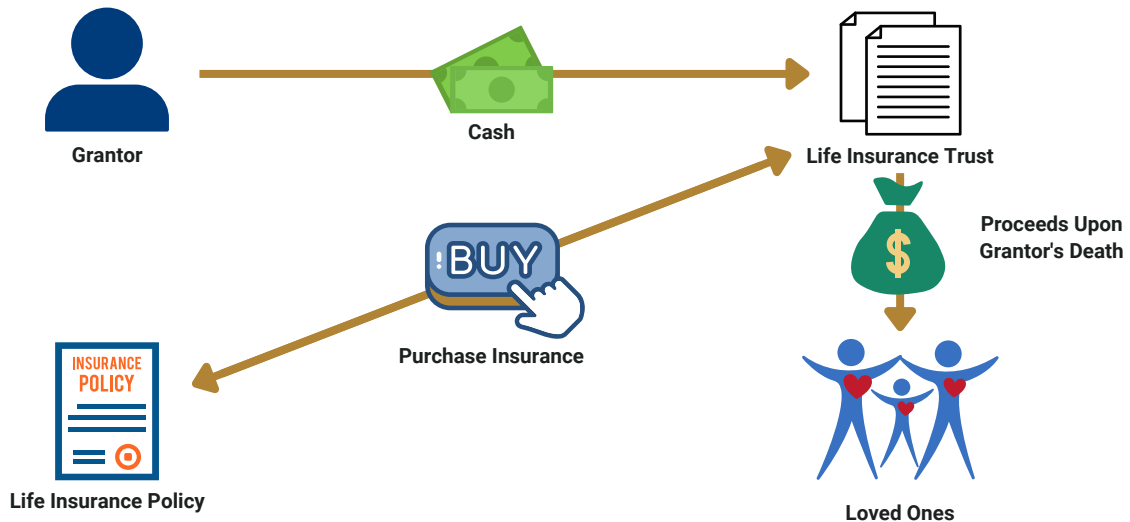
Most credit shelter trusts name the surviving spouse as trustee and provide for distributions to the surviving spouse using a specified standard for health, maintenance and support. Some credit shelter trusts allow for distributions to children during the spouse's lifetime. At the surviving spouse's death, the assets normally pass to children or trusts for the benefit of the children.

Does the Surviving Spouse Need Funds from the Credit Shelter Trust?

In some cases, the estate of the first to die is large enough that the surviving spouse does not need the funds in the credit shelter trust. In addition, some credit shelter trusts assign the Generation Skipping Transfer (GST) exemption to such trust allowing for the assets to be available for multiple generations through a "Dynasty Trust". With a Dynasty Trust, the client could perpetuate the trust for 100 years that would provide cash flow to multiple generations without the trust assets being taxable in your estate.

Leverage Money in Credit Shelter Trust

What if some of the funds in the credit shelter trust were used to either fund a single premium life insurance policy or were used to purchase a SPIA where the after-tax payments fund a life insurance policy in the credit shelter trust on the life of the surviving spouse? At the surviving spouse's death, the credit shelter trust would fund thereby leveraging up assets already out of the surviving spouse's estate. The children or trusts for the children would receive the funds income and estate tax free.



Charitable Giving

Charitable giving is a way to give something back. A way to show your charitable intent – in a tangible, meaningful and rewarding way. An effective use for life insurance in conjunction with charitable giving is known as wealth replacement. Wealth replacement is an important tool because it's not unusual for potential donors to be concerned that giving away assets could deprive children, grandchildren, or other heirs of money or property that should rightfully be retained for their use. It's a classic dilemma: family goals on the one side, philanthropic goals on the other

| Credit Shelter Trust: A Powerful Wealth Transfer Tool | | | |
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| Start with an existing Deferred Annuity. | Purchase a SPIA with the Deferred Annuity funds using a 1035 exchange. | Use the after-tax SPIA payments to purchase a life insurance policy, owned by an irrevocable life insurance trust (ILIT) | The life insurance provides an income tax-free benefit to beneficiaries. |

THE NEXT STEP

Effective estate planning takes time and effort and frequently involves making hard decisions. However, the rewards more than justify the costs. A carefully developed estate plan will provide greater financial security for you and your family and make it possible to support worthwhile charitable organizations. We urge you to consider the rewards and to contact us if we can help.



This overview is not intended as legal, estate planning, or tax advice, but rather to provide you with points to consider and discuss with your agent, accountant, lawyer or other tax advisor. The information in this brochure is general and provided for educational purposes. The concepts, strategies and products discussed are general and may not be suitable for you. You should consult with an attorney and tax specialist to review your specific circumstances. Neither AGENCY NAME EHRE, Global America Financial Brokerage nor its insurance representatives give legal, estate planning or tax advice.

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